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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of:

Federal-State Joint Board on
Universal Service:
Promoting Deployment and
Subscribership in Unserved
and Underserved Areas, Including
Tribal and Insular Areas

CC Docket No. 96-45

COMMENTS OF GTE

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December 17, 1999

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SUMMARY

GTE strongly supports the promotion of universal service to tribal lands and other unserved or underserved areas. At the same time, the Commission must tread carefully in pursuing this goal, given the difficult jurisdictional issues and practical problems associated with serving these areas. GTE therefore agrees that the FCC, state regulators, and tribal authorities should work cooperatively to develop efficient means of extending and expanding universal service, particularly to residents of tribal lands. (Section I)

To this end, GTE endorses use of an auction approach both to identify carriers and establish support levels in unserved areas. Such an approach will employ a market mechanism to select the most efficient providers and will minimize support while assuring sufficiency. An auction approach is particularly well-suited to unserved areas because of the difficulty of developing a singular cost model that is capable of taking into account all of the special considerations that may affect these locations.

In particular, GTE recommends an auction mechanism with the following characteristics:

- As a general matter, "unserved areas" should be wholly outside existing ILEC service territories. The specific areas to be auctioned should be identified through a nominating process. The auction process also could be applied to tribal lands by the appropriate regulatory authority where some or all of the territory is within the serving area of a LEC. (Section II.A)
- The regulatory authorities should issue a prospectus defining each area and the scope of the service obligation. The prospectus also should establish the maximum price that may be charged for basic service. To simplify the auction process and maximize its objectivity, bidding should be "one-dimensional"; that is, the bidders should compete only on the per-customer support amount. (Section II.B)

- The regulators should pre-qualify prospective bidders. Terrestrial wireless and satellite providers should be eligible to bid where they are capable of providing the required services. (Section II.C)
- Rather than assuming in advance that a particular unserved area can support only one provider, the bidding process should be used to determine the number of winners. (Section II.D)
- To minimize costs and promote simplicity, the auction should be single-round. To assure competitive neutrality and sufficiency, all winners should receive the same per-customer amount, set at the level of the highest accepted bid. (Section II.E)
- The regulatory authority should determine the maximum level of support that will be authorized. (Section II.F)
- The regulatory authority should enter into a contract with each winner for a specified term. Given the nature of these service areas, a relatively long term (e.g., ten years) should be employed. (Section II.G)

GTE respectfully submits that an auction structured along these lines is preferable to the alternatives discussed in the *FNPRM*. Those alternatives are unduly complex and would require the allocation of customers among carriers. (Section II.H)

Finally, GTE supports the proposed changes to the Lifeline program. Expanding the availability of tier II and tier III support to qualified residents on tribal lands will directly advance the goals of Section 254. (Section III.A) In contrast, the proposals to redefine study areas or modify the LinkUp program would be administratively burdensome and might actually reduce the level of available support. Those proposals therefore should not be adopted. (Section III.B)

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COMMENTS OF GTE

GTE Service Corporation and its affiliated telecommunications companies (collectively "GTE"),¹ hereby file their Comments in response to the *Further Notice* of Proposed Rulemaking issued in the above-captioned docket.² As GTE details below, the Commission can advance the availability of universal service in currently unserved areas by using a competitive bidding mechanism to designate carriers and to set the necessary level of support. In addition, the Commission should make targeted

¹ GTE Alaska, Incorporated, GTE Arkansas Incorporated, GTE California Incorporated, GTE Florida Incorporated, GTE Hawaiian Telephone Company Incorporated, The Micronesian Telecommunications Corporation, GTE Midwest Incorporated, GTE North Incorporated, GTE Northwest Incorporated, GTE South Incorporated, GTE Southwest Incorporated, GTE West Coast Incorporated, Contel of Minnesota, Inc., Contel of the South, Inc., GTE Communications Corporation, GTE Hawaiian Tel International Incorporated, GTE Wireless Incorporated, and GTE Airfone Incorporated.

² *Federal-State Joint Board on Universal Service: Promoting Deployment and Subscribership in Unserved and Underserved Areas, Including Tribal Lands and Insular Areas*, FCC 99-204 (Further Notice of Proposed Rulemaking) (rel. Sept. 3, 1999) ("FNPRM" or "Further Notice").

revisions to its Lifeline program to benefit qualifying consumers residing on tribal lands. In contrast to the other broad proposals presented in the *Further Notice*, which could undermine support, these straightforward measures will foster service deployment consistent with Section 254 while respecting the unique jurisdictional considerations associated with many unserved areas.

I. THE COMMISSION SHOULD PROMOTE UNIVERSAL SERVICE TO TRIBAL LANDS AND OTHER UNSERVED OR UNDERSERVED AREAS THROUGH A COOPERATIVE APPROACH THAT MINIMIZES THE NEED TO RESOLVE JURISDICTIONAL ISSUES.

The *Further Notice* seeks comment on a multitude of proposals to address the unique issues that may limit the availability of telecommunications services and subscribership in unserved and underserved areas, including tribal lands and insular areas. To this end, the Commission generally asks whether revisions to existing federal high-cost and low-income programs, along with proposals to implement Section 214(e) of the Communications Act, are necessary to alleviate barriers to service availability in these areas.³

GTE commends the Commission for focusing attention on these matters. Universal access is a central tenet of Section 254 of the Act, which provides that telecommunications and information services should be accessible to "[c]onsumers in all regions of the Nation, including low-income consumers and those in rural, insular,

³ *FNPRM*, ¶¶ 8-9.

and high cost areas."⁴ Indeed, telecommunications service provides a "vital link between individuals and society as a whole."⁵

At the same time, the Commission must remain mindful that promoting the availability of supported services to unserved and underserved areas raises complex issues regarding the respective roles of federal and state regulators. These roles must be defined not only in terms of statutory jurisdiction, but also by the practical limitations of addressing the particular circumstances of unserved or underserved areas with a "one-size-fits-all" approach. Such considerations assume even greater significance for Indian reservations and other tribal lands, where principles of tribal sovereignty and self-determination are implicated and cultural differences must be respected.

The *FNPRM* proposes to address the jurisdictional issues associated with designating eligible telecommunications carriers by establishing a cooperative process between the tribal authority, the state commission, and the FCC. In particular, a carrier seeking designation would first consult with the relevant tribal authority and state regulators. The matter would come before the Commission only if these parties did not agree that the state had authority.⁶

GTE concurs that such a pragmatic, cooperative approach makes sense and urges that it be extended to the measures used to promote universal service on tribal lands. Specifically, any effort to advance universal service in these areas should result

⁴ 47 U.S.C. § 254(b)(3).

⁵ *FNPRM*, ¶ 2.

⁶ *Id.*, ¶ 82.

from consultation among all three relevant regulatory authorities (the FCC, the state, and the tribal governance), regardless of which entity has ultimate legal jurisdiction under Section 214. In this regard, while GTE recommends use of an auction approach to designate the eligible telecommunications carrier or carriers and determine support levels, it recognizes that the Commission may not always have authority to compel use of such a process. One possibility, discussed in Section II.A below, is to establish a "nominating process" that proceeds with the auction on a cooperative basis without having to consider or resolve jurisdictional issues.

Against this background, GTE responds below to the specific proposals in the *FNPRM*. As described herein, GTE supports use of a competitive bidding mechanism to promote service in unserved areas and also endorses targeted modifications to the Lifeline program in order to extend its benefits to qualifying consumers residing on tribal lands.

II. A PROPERLY TAILORED COMPETITIVE BIDDING MECHANISM WILL EFFICIENTLY PROMOTE UNIVERSAL SERVICE IN UNSERVED AREAS.

The Commission seeks comment regarding the implementation of Section 214(e)(3) of the Act with respect to unserved areas. That section allows the Commission or a state to designate a carrier (or carriers) to serve a requesting unserved area upon a determination that such provider is "best able to provide such service for that unserved community."⁷ In particular, the Commission tentatively

⁷ 47 U.S.C. § 214(e)(3).

concludes that it should adopt a competitive bidding mechanism, both to identify the carrier best able to provide supported services in unserved areas and to establish the requisite level of support. Importantly, the Commission's tentative conclusion extends only to those unserved areas subject to the Commission's authority under Section 214(e), possibly including certain tribal lands.⁸

GTE favors adoption of a competitive bidding mechanism under these circumstances, for use either by the Commission or through a cooperative process with the states.⁹ As detailed below, a properly designed competitive bidding mechanism can effectively assign universal service obligations for unserved areas and determine the necessary support levels. Competitive bidding provides a market mechanism for establishing sufficient universal service support amounts, reducing the role that

⁸ *FNPRM*, ¶ 94. In addition, the auction process also could be applied to tribal lands by the appropriate regulatory authority where some or all of the territory is within the serving area of a LEC.

⁹ As the Commission is aware, GTE has long believed that auctions present a rational and robust approach to determining universal service funding requirements. Indeed, working with the Commission's staff, and drawing on the expertise of Professor Paul Milgrom of Stanford University, who has advised the Commission on frequency auctions, GTE developed a design for a universal service auction primarily geared toward areas currently served. This design, which is summarized in Attachment A, can readily be adapted to select carriers to serve currently unserved areas. Some of the more significant variations or deviations are explained herein. Attachment A is an updated version of the proposal referenced in footnote 208 of the *FNPRM* and is generally consistent with that document. However, Attachment A has been updated as additional features were developed. For a more detailed discussion of competitive bidding for universal service, see Weller, Dennis, "*Auctions for Universal Service Obligations*," in the current issue of the journal *Telecommunications Policy*, 645-674 (Volume 23, Issue 9).

regulators must play.¹⁰ By inducing bidders to reveal their funding requirements, bidding can determine the appropriate support amount more reliably than any administrative process can. Competitive bidding would identify the most efficient carriers and force them to compete for support on the basis of efficient provisioning capabilities, thus minimizing the need for support. At the same time, bidding would ensure that support is "sufficient," since the subsidy provided would never be less than the amount the carrier itself believes is needed.¹¹

The auction proposal GTE has previously developed for broader use can readily be adapted for unserved areas. In one respect, it is simpler to design an auction for an unserved area because there is no need to make allowance for the asymmetric starting position of an incumbent carrier. However, the challenges posed by unserved areas require certain modifications, which are set forth below. If anything, the advantage of competitive bidding for determining support is even greater in an unserved area than it would be elsewhere. Unserved areas are, almost by definition, atypical, and existing cost models are unlikely to adequately integrate their operating characteristics, thus not performing well in estimating their costs. Further, unserved areas are more likely to be

¹⁰ *FNPRM*, ¶ 103.

¹¹ The *FNPRM* expresses confidence that the Commission's recently adopted modifications to the federal high cost fund for nonrural carriers "will provide appropriate incentives for carriers to provide supported services to all Americans who need them." *FNPRM*, ¶ 83. GTE remains concerned, however, that the new high cost fund provides only limited funding, to only a few states – certainly not to all unserved areas or tribal lands. Further, the intent of the new fund is merely to supplement state resources for purposes of maintaining reasonable comparability. The calculation is based on state averages, and makes no pretense of assuring that the sum of federal and state funding is sufficient in any given area.

affected by other special factors that would be difficult for the Commission to observe or quantify. With a competitive bidding approach, the Commission is relieved of the need to estimate costs, and each bidder will take account of the factors it considers relevant in the development of its bid to serve these types of areas.

A. "Unserved Areas" Must Be Properly Defined.

The *FNPRM* proposes that an unserved area should be defined as any area in which facilities would need to be deployed in order to provide service.¹² This definition is too broad. It would include any sliver of land within an existing ILEC serving area where facilities have not yet been extended in response to a request for service. The result would be to create many thousands of "unserved areas" across the country, and to treat as special cases areas that states have traditionally addressed through line extension tariffs. It would be more reasonable to treat as "unserved" any area outside a current ILEC serving area where facilities would have to be extended.¹³

To facilitate this identification of unserved areas, the relevant regulator should establish a procedure under which parties could nominate areas to be auctioned. For unserved areas, the relevant authorities – the Commission, the state commission, or

¹² *FNPRM*, ¶ 86.

¹³ As a separate matter, the regulatory authority with jurisdiction must consider whether it wishes to augment its definition of the universal service obligation to include the extension of facilities in circumstances that would fall under the line extension provisions of current tariffs, and to subsidize the charges that would otherwise apply to such extensions. While requiring carriers to make line extensions at an "affordable" rate would address the concerns expressed in the *FNPRM* about the effects of line extension charges, it would also add substantially to the cost of universal service. If the regulator were to include such a requirement in its prospectus, the carriers' bids would
(Continued...)

the tribal authority – should also be able to nominate an area. The regulator could establish certain pre-announced time periods, or "windows," each year for nominations; all areas nominated within the same "window" would then be auctioned at the same time, in order to simplify administration of the bidding process. Once an area has been nominated, there would be a subsequent "window" within which qualified bidders could register to bid. This would allow any qualified carrier to participate in any auction and ensure that no carrier could exclude another by nominating an area. Once bidders had been registered and deposits made, the auction could proceed, with bids submitted on a pre-announced date.¹⁴

B. The Area And Service Obligation Subject To Bid Must Be Carefully Defined.

Before any carrier can formulate a bid to provide universal service for an unserved area, it must first know precisely what it is bidding for. The relevant regulatory authority must define the "item" to be auctioned – the obligation to provide service in a given area. This would be published in the form of a prospectus, or request for bid, which would subsequently form the basis for a contractual arrangement between the regulator and the winning bidders. This prospectus should define all aspects of the obligation the carrier is to undertake, including the service to be provided, the

(...Continued)
certainly reflect their expectations of the added cost.

¹⁴ GTE suggests that qualified bidders make a small deposit upon registering to bid, which would be returned if the carrier submits a qualified bid in the auction. The purpose of this deposit would be to discourage frivolous nominations.

availability of that service, the area to be served, and the terms on which service would be offered.¹⁵

Serving area. In its earlier, more general proposal, GTE suggested that the serving areas to be auctioned should be defined in advance, based on some small, standard geographic unit. In unserved areas, it will probably be necessary to determine the area put out for bid on an *ad hoc* basis, since each such area will be a special case. There is no existing wire center, and standard census units may not be defined. In addition, there are probably no urban-rural differences to be captured, and while there may be variations in the difficulty of the terrain, it is likely not worthwhile to attempt to distinguish them prior to the auction.¹⁶

The relevant area is therefore most likely to be the area that immediately surrounds the cluster of homes or businesses whose request for service has prompted the bidding process. If this cluster lies within a larger area that is currently uninhabited, the area of the carriers' obligation should not extend more than a limited radius beyond the existing cluster. If the obligation to serve is too open-ended, and might include later development at some distance from the existing cluster, carriers could find it difficult to assess the potential costs and may include substantial allowances for the resulting risks

¹⁵ The prospectus would list all aspects of service in which the regulator wishes to intervene. The carrier would have discretion over any matters not specified in the prospectus.

¹⁶ This is not to suggest that the cost characteristics of the area are not important. It will, however, be difficult to subdivide the area into smaller units in advance for purposes of separating higher cost areas from lower cost ones.

in their bids. Further growth beyond the existing cluster should be handled in the near term through line extension charges, and in the longer term by another auction.

Scope of service obligation. The scope of the carrier's obligation to serve must also be specified in advance. In particular, the prospectus should clearly define the service to be provided.¹⁷ The prospectus also should establish the maximum price the carrier could charge for the basic service package. This is very important in an unserved area, where there is no regulated incumbent whose prices would discipline the winning bidder's rates.

The regulator should specify all of its requirements in the prospectus, and then ask bidders to name the per-customer support amount they need to meet those requirements. This approach would allow the bidding to be one-dimensional. That is, bidders would compete solely on the basis of the support amount, and a clear, pre-announced rule could be used to select the winner.

In contrast, if carriers are allowed to submit proposals that involve different levels of service or quality, then the auction would become a sort of "beauty contest" in which there would be no clear, objective basis for choosing a winner.¹⁸ A key advantage of

¹⁷ The Commission tentatively concludes that this should be the basic local service supported by the current federal mechanisms. If the auction program is to be administered cooperatively with a state commission, then any differences in definition of the supported service between state and federal programs would have to be reconciled. *FNPRM*, ¶ 117.

¹⁸ If the different dimensions of the bids are relatively simple, and known in advance, then it may be possible to announce a "scoring rule" which would be used to compare different bids. However, this process will generally be complex and somewhat arbitrary.

competitive bidding, compared to a more traditional regulatory process, is that it is simple, and the basis for the choice of a carrier is transparent. This virtue is best preserved by limiting the bidding to one dimension. If carriers offer different advantages (other than those specified in the prospectus) then the best way for them to compete on those grounds is by vying for customers. The purpose of the bidding process should be to ensure that each carrier at least meets the regulator's requirements.

C. Prospective Bidders Should Be Pre-Qualified.

The *FNPRM* seeks comment on possible participants in the bidding process.¹⁹ GTE suggests that carriers should be screened in advance and certified as qualified bidders. The Commission, or the state, may wish to undertake some more thorough qualifying procedure than is ordinarily employed, since a possible outcome of the auction is that a new provider would be expected to provide service on its own, without any incumbent carrier to serve as a backstop.

Pre-qualification would simplify the bidding process, since only qualified carriers would be allowed to register to bid or to submit bids. It also would ensure that the regulator would be willing to entrust with the universal service obligation any carrier that wins an auction. In addition, certifying carriers in advance would be more efficient than doing so during the auction process itself. Once a carrier had been certified, it would be able to participate in any such auction.

¹⁹ *FNPRM*, ¶105.

GTE agrees with the Commission that, in order to be certified, a carrier must be designated as an Eligible Telecommunications Carrier. GTE also urges that terrestrial wireless or satellite providers be certified, as long as they can provide the defined service and are willing to take on the obligation set forth in the prospectus.²⁰

D. The Bidding Process Should Be Used To Determine the Number of Winners.

The *FNPRM* suggests that unserved areas or tribal lands may not be capable of supporting more than one carrier.²¹ The Commission therefore seeks comment on whether the auction should select a single winner and award that firm an exclusive right to draw a subsidy in a given area. GTE agrees that many unserved areas might not support more than one carrier. However, as the *FNPRM* notes, it is inconsistent with the pro-competitive thrust of the Act for an auction plan to assume that competition is out of the question in certain areas.²²

The auction design GTE has previously proposed does not presume how many winners should be selected; instead, it makes that determination on the basis of the bids themselves. This allows the auction to produce a different result in different areas. Where only one carrier can operate economically, the auction may result in selection of a single universal service provider. In an area where it might be possible to have competition among different carriers, the auction may yield more than one winner.

²⁰ *FNPRM*, ¶ 105.

²¹ *Id.*, ¶ 106.

²² *See Id.*, ¶ 107.

As the *FNPRM* recognizes, "customers benefit most when multiple providers are available."²³ GTE submits that its proposal would allow this benefit to be realized wherever that outcome is consistent with the economics of the unserved area.²⁴ Specifically, because the business case for any given bidder would depend on whether other winners are chosen, GTE suggests that each bidder submit two bids. The first would be the per-customer amount the carrier would need if it were the only winner. The second would be the amount the carrier would need if more than one firm were selected, and the carrier had to share the market with the other winning firm or firms.

The lowest first bid would always be accepted. The regulatory authority would then decide whether to accept any additional bids by comparing the second bids of the other firms to that lowest bid. As the *FNPRM* suggests, the decision rule would accept bids that fall within a predetermined range of the lowest bid.²⁵ This procedure would result in selection of more than one carrier where doing so would not unduly increase the cost of universal service; that is, in areas where the bids from different carriers are close together. Where adding another supplier would be very costly – as indicated by the bids – the regulatory authority could select one carrier. Thus, rather than making a

²³ *Id.*

²⁴ The choice involves a tradeoff between the competitive benefits of having multiple providers, versus the possible efficiency gains from having only one provider in a low-density area. GTE's auction design is based on the solution to this analytical problem. A similar problem has been analyzed in the literature on competitive bidding for procurement. Dana, James & Kathryn Spier, *Designing A Private Industry*, 52 J. Pub. Econ. 127 (1994).

²⁵ *FNPRM*, ¶ 112.

blanket determination as to how many carriers to support, the regulatory authority could set forth its policy judgment concerning the value of having multiple carriers when it determines the range within which bids would be accepted.

E. A Single-Round Auction Should Be Held and All Winners Should Receive the Same Per-Customer Support Level.

While the Commission has used a multiple-round format in the context of the frequency auctions, GTE recommends that a single-round auction be used to select universal service providers in unserved areas. The single-round format is simpler and will minimize the costs of the auction for the Commission and the bidders. This is particularly important because the value of each of the "properties" being auctioned might be small, compared to the frequency rights being auctioned previously. Further, the single-round format helps to ensure that collusion among the bidders cannot be undertaken profitably. The Joint Board noted that the prevention of collusion should be one of the objectives of the auction design.²⁶ This is particularly important if the auction could produce multiple winners.

Once bids have been accepted, then all winning carriers should be paid the same per-customer level of support. This is necessary to ensure that the support mechanism is competitively neutral.²⁷ GTE suggests that each carrier be compensated at the level of support specified in the highest accepted bid.²⁸ Compensating all winners

²⁶ *FNPRM*, ¶ 108.

²⁷ If more than one winner is chosen, then the per-customer support would be portable among the winners, but not to any other carrier.

²⁸ The *FNPRM* seeks comment on whether the winners should be paid on the
(Continued...)

at the level of the highest accepted bid ensures that support will always be sufficient, because no carrier will ever be required to serve at a support amount less than its own bid. It will also approximate the workings of a competitive market, in which the price is set by the supply of the marginal firm. Finally, if this "payment rule" is announced in advance, the expected level of the universal service support produced by the auction does not depend on whether carriers are paid on the basis of the lowest bid, the second lowest bid, or the highest accepted bid.²⁹ For this reason, there is no "cost," in the form of higher support, incurred by paying on the basis of the highest accepted bid.³⁰

F. The Regulatory Authority Should Determine An Upper Bound On Support.

The *FNPRM* seeks comment on how to determine a reserve level for the auction – the highest bid that would be accepted.³¹ Comment is also sought on what should be done if the auction fails to attract any qualified bids.³² GTE proposes that the regulator

(...Continued)
basis of the lowest bid, or the second-lowest bid. *FNPRM*, ¶ 112.

²⁹ This property, though perhaps counterintuitive, is one of the most well-known results from auction theory, and it has been confirmed by actual experience, including experiments by the Treasury Department with its auctions of treasury bills. The result holds because each bidder takes the payment rule into account in formulating its bid.

³⁰ If the bidding process is administered as a cooperative effort with the state, then GTE agrees with the *FNPRM* that the two regulatory authorities would have to decide in advance on the proportion of the support determined by the auction that would be paid by the federal mechanism, and the proportion that would be paid by the state. *FNPRM*, ¶ 112.

³¹ *FNPRM*, ¶ 115.

³² *Id.*, ¶ 96.

should raise the reserve support level in a series of steps until a bid is submitted.

However, the regulator may determine an upper bound to the public interest benefit to be derived from enticing a supplier to serve the area. The auction would then proceed, with the reserve being raised until either a bid has been submitted or this upper bound on the reserve has been reached.

If the reserve amount reaches the upper bound without submission of a qualified bid, the regulator may wish to terminate the auction and conclude that service cannot be provided in the area at a cost that is justified by the public interest benefit. The regulatory authority should not, as the *FNPRM* suggests, attempt to estimate the cost of serving the area.³³ The bidders themselves will determine their costs, and the regulator should not attempt to second-guess their estimates. In this "market," the regulator itself provides the demand side, by specifying the public's willingness to pay for universal service, while the bids represent the supply side, by revealing the carriers' willingness to provide service.

While the relevant authority should not guess the carriers' costs, only the regulator can make the public policy determination as to the value of having service in the area – a determination that has nothing to do with cost. While it may appear undesirable that the process may not always lead to service in the area, the regulator should not cause an expenditure of resources that outweighs the benefits to be gained from that expenditure. Further, while Section 254(e) confers authority to require a

³³ In any event, there may be factors unrelated to cost which might affect a carrier's willingness to take on the universal service obligation in an area.

carrier to serve, it does not obviate the separate requirement of Section 254 that support for that service should be sufficient. Therefore, the regulator should not require a carrier to provide service in an unserved area for a support amount less than that determined by the auction to be sufficient.

G. The Regulatory Authority Should Enter into a Contract with the Winners for a Specified Term.

Once the winner or winners have been chosen, the regulatory authority should enter into a contract with each of those carriers to carry out the terms of the prospectus in return for the support determined in the auction. An appropriate interval should be provided to allow the carriers to install the facilities necessary to provide service. During this period, the regulator may wish to require bonds from the carriers and require them to submit service plans to document how they expect to provide service in the area.

The *FNPRM* seeks comment on the term of the commitment between the regulator and the winning carriers.³⁴ The choice of this term represents a tradeoff. A longer term will give each carrier more time to amortize its investments and may thus result in lower bids. A shorter period will provide an earlier opportunity to revise the contract by repeating the auction process to reflect changes in technology, changes in the serving area, or the entry of new carriers.

In its earlier proposal, GTE suggested a term of three years. However, in an unserved area, the possibility of new entry during the contract period is likely to be less

³⁴ *FNPRM*, ¶ 109.

than in most other areas, while the carrier's concern over the amortization of its investment is likely to be greater. For these reasons, GTE believes a longer term (perhaps ten years) would be appropriate.³⁵ At the end of the term, the area would again be open for nomination.

H. The Alternative Auction Proposals Are Problematic.

While the *FNPRM* lists a number of alternative auction designs that have been proposed, GTE submits that the framework discussed here is better suited to the task of choosing universal service providers for unserved areas. Bulow and Nalebuff, consultants to Ameritech, have proposed an auction in which each carrier is paid a flat amount of support. This approach makes it necessary to allocate customers in some fashion among the carriers and renders it unlikely that the carriers would compete vigorously for each customer.

Steinberg and Kelly have proposed a system of combinatorial bidding. Their approach attempts to address some of the tradeoffs regarding the number of winners, as does the GTE proposal. However, Steinberg and Kelly have their bidders vie for "blocks" of customers, and thus face the same problem of allocating customers as Bulow and Nalebuff. In addition, the multiple-round nature of the bidding under this approach would give rise to concerns about collusion.

Finally, the combinatorial nature of the auction makes it unduly complex, particularly for unserved areas. The primary objective of the combinatorial design is to

³⁵ This recommendation reflects the discussion of this subject in a workshop process in California.

take account of possible synergies among areas, in which a carrier's bid for one area would be affected by whether or not the same carrier also won the bidding for another area. Unserved areas are likely to be unique, stand-alone areas, in which such synergies are likely to be relatively unimportant.

III. TARGETED REVISIONS TO THE LIFELINE PROGRAM SHOULD BE ADOPTED, BUT THE BROADER PROPOSALS IN THE FNPRM ARE COUNTER-PRODUCTIVE

The *Further Notice* also seeks comment on a range of other proposals intended to promote service on tribal lands.³⁶ Among other things, the Commission specifically asks whether to modify the Lifeline program, allow carriers to establish separate tribal study areas, or expand the LinkUp program to cover the facilities-based charges.³⁷ GTE supports revising the Lifeline support program but believes that the other proposals are counterproductive.

A. The Proposed Modifications To The Lifeline Program Are Appropriate.

GTE agrees with the Commission's tentative conclusions to: (1) provide the second tier of Lifeline support where such support will result in an equivalent reduction in the monthly bill of a qualifying customer; and (2) make available the third tier of Lifeline support to qualifying low-income consumers on tribal lands, even if a state did

³⁶ FNPRM, ¶¶ 38-72.

³⁷ FNPRM, ¶¶ 63-72.

not grant matching funds to trigger such support.³⁸ These measures recognize the unique circumstance of low-income consumers residing on tribal lands and the potential gaps in qualifying for Lifeline tier II and tier III support when these areas do not fall under the jurisdiction of a state commission. Moreover, the Commission's proposals offer a reasonable and targeted step to promote service to tribal lands, while not transgressing the respective jurisdictional bounds of state and tribal authorities. Accordingly, such an approach will help to ensure that qualifying residents of tribal lands will receive the intended benefits of the federal Lifeline program and should be adopted.

B. The Commission Should Not Re-Define Study Areas Or Modify the LinkUp Program.

The Commission should decline to adopt broader measures – such as redefining study areas or modifying the LinkUp program – in an effort to promote service to tribal lands.³⁹ These steps actually could undermine the goal of increasing the availability of funding resources. Designating tribal lands as separate study areas, for example, would impose the administrative burden and associated costs of creating these new areas. These costs could be significant, given the large number of areas that could be affected nationwide.

Designating new study areas also would run counter to the Commission's recently adopted approach to the high-cost universal service support fund for non-rural

³⁸ *Id.*, ¶¶ 69-70.

³⁹ *See FNPRM*, ¶¶ 63-65, ¶¶ 119-121.

carriers. In the Ninth Report and Order regarding the high-cost fund, the Commission essentially rendered study areas irrelevant for purposes of calculating and distributing federal high-cost support for non-rural carriers, except insofar as hold-harmless amounts are concerned.⁴⁰ Although creating new study areas might allow some areas now classified as non-rural to become rural, it is not clear what effect this might have over the long run, given the Commission's announced intention to review its funding mechanism for rural areas.

Expanding the LinkUp program to defray the costs of providing new facilities would extend the program beyond its intended purpose and could encourage inefficient investment in telecommunications infrastructure. Rather than offering sustainable benefits to unserved and underserved areas, such an approach actually could exacerbate disparities in service and support levels by raising costs and reducing incentives to deploy infrastructure.⁴¹

⁴⁰ See *Federal-State Joint Board on Universal Service*, FCC 99-306, ¶¶ 43-52, ¶¶ 68-76 (Ninth Report and Order) (rel. Nov. 2, 1999). Moreover, under the Tenth Report and Order, a carrier seeking to serve a separate tribal study area may need to do so through a separate operating entity to qualify for rural support, thereby increasing operating costs. *Federal-State Joint Board on Universal Service; Forward-Looking Mechanism for High Cost Support for Non-Rural LECs*, FCC 99-304, ¶ 454 & n. 28 (Tenth Report and Order) (rel. Nov. 2, 1999). The Commission should clarify the potential inconsistency.

⁴¹ If the Commission wishes to address line extension charges, it should include its requirements in the prospectus for the auction process, as discussed above.